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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, March 31, 1999

PETITION OF

CASE NO. PUA980043

AQUASOURCE UTILITY, INC.

For approval to acquire control of
Blue Ridge Utility Company, Inc.

ORDER GRANTING APPROVAL

On November 23, 1998, AquaSource Utility, Inc., (“AquaSource”, the “Company”) filed a petition under the Utility Transfers Act requesting approval for AquaSource to acquire from Winfred W. Ortts and Kitty L. Ortts (the “Ortts”), all the issued and outstanding stock of Blue Ridge Utility Company, Inc., (“Blue Ridge”). AquaSource Utility, Inc., is a wholly-owned subsidiary of AquaSource, Inc. which is, in turn, a wholly-owned subsidiary of DQE, Inc., a publicly traded utility holding company. In addition to water and wastewater utilities, AquaSource and AquaSource, Inc., also own non-regulated water and wastewater related businesses such as construction and engineering companies, water and wastewater system leasing and fabrication businesses, and contract operation services for other owners of water and wastewater facilities.

AquaSource and AquaSource, Inc., (the “Companies”) received approval from their Boards to invest over \$200 million in water and wastewater utility companies. The

Companies provide potable water and wastewater services to more than 300,000 customers and are currently negotiating to acquire numerous additional water utilities across the country, including Virginia. AquaSource is headquartered in Houston, Texas and has several other offices in various areas of the country.

DQE, Inc., the parent company of AquaSource, Inc., is a Pennsylvania based energy service company and parent of Duquesne Light Company. DQE, Inc., has assets of more than \$4.6 billion and annual revenues in excess of \$1.2 billion. AquaSource and AquaSource, Inc., report their financial data on a consolidated basis with DQE, Inc.

The Ortts currently own all of the issued and outstanding stock of Blue Ridge Utility Company, Inc. Blue Ridge is a Virginia small water company providing water services to households in Shenandoah County, Virginia. Blue Ridge currently serves 182 customers and 520 additional lots throughout the housing subdivisions.

AquaSource proposes to purchase, and the Ortts propose to sell to AquaSource all of the issued and outstanding stock of Blue Ridge. As stated in the petition, upon consummation of the transaction, Blue Ridge will become a wholly-owned subsidiary of AquaSource and will continue to operate as a separate Virginia small water company. Additionally, AquaSource will provide operation, maintenance, and other services to Blue Ridge by contract.

As agreed by AquaSource and the Ortts, AquaSource will pay the Ortts \$158,272.00 in cash for the Blue Ridge stock plus additional amounts for new connections made to the Blue Ridge system prior to December 21, 2001. In accordance with the Stock Purchase Agreement, AquaSource will pay an additional \$870.00 per household, less AquaSource's connection cost. The purchase price will additionally be

adjusted pursuant to the Stock Purchase Agreement. AquaSource represents that adequate service at just and reasonable rates will not be impaired or jeopardized by the proposed transfer of control of Blue Ridge. AquaSource further represents that it plans to provide system improvements without change in the current water rates to Blue Ridge's customers. In addition, the Company states that the acquisition will benefit Blue Ridge's customers without an increase in rates. AquaSource's mission, as stated in its petition, is to:

- 1) provide safe, clean, reasonably priced drinking water to its customers;
- 2) achieve high levels of customer service and satisfaction; and
- 3) keep all of its water and wastewater systems in regulatory compliance.

AquaSource represents that, by Blue Ridge operating as a part of the AquaSource family of companies, economies of scale will help maintain or lower future operating expenses, thereby mitigating the need for future rate increases. AquaSource further represents that, as part of a larger company with a publicly-traded parent, Blue Ridge will have access to the less expensive, public capital markets to finance future capital improvements to its plant and equipment, thereby reducing the need for potential future rate increases.

The Company represents that AquaSource proposes to offset any need to increase rates, due to increased investment directly attributable to the acquisition, against expense reductions it expects to achieve in Blue Ridge's operations. AquaSource also represents that, to the extent AquaSource is able to achieve and retain expense reductions resulting from operating efficiencies achieved over time, ratepayers will be insulated from any need to increase rates.

AquaSource currently owns and operates over 300,000 connections in six states. AquaSource is headquartered in and operates more than 200,000 connections in Texas. AquaSource represents that it has not filed a rate case in the eighteen months it has owned and operated facilities in Texas. AquaSource is negotiating rate settlements in various other states. AquaSource represents that it has been able to improve service provided by companies it has acquired particularly in Texas.

THE COMMISSION, upon consideration of the petition and representations of the Company and having been advised by its Staff, is of the opinion and finds that the above-described transfer of control will neither impair nor jeopardize the provision of adequate service to the public at just and reasonable rates and should, therefore, be approved. Accordingly,

IT IS ORDERED THAT:

- 1) Pursuant to §§ 56-88.1 and 56-90 of the Code of Virginia, AquaSource Utility, Inc., is hereby granted approval to acquire control of Blue Ridge Utility Company, Inc., under the terms and conditions and at the price of \$158,272.00, plus additional amounts for new connections made prior to December 21, 2001, and adjustments made pursuant to the Stock Purchase Agreement described herein.
- 2) The approval granted herein shall have no ratemaking implications.
- 3) Any excess earnings resulting from operational efficiencies or cost reductions shall be at issue in any filings or proceedings addressing rates.
- 4) The approval granted herein shall in no way be deemed to include the recovery of any portion of the consideration paid in excess of the rate base, at the time of

closing, through either an acquisition adjustment or any other type of adjustment for ratemaking purposes.

5) Blue Ridge Utility Company, Inc., shall file a Report of Action with the Director of Public Utility Accounting of the Commission on or before May 28, 1999. Such report shall contain the date of transfer, the sales price, and all accounting entries reflecting the transfer.

6) There appearing nothing further to be done in this matter, the same be, and it hereby is, dismissed.